

Perspectives

On Emerging Issues in State and Local Development

September 1989

Pilot Issue

The OSU Extension Service publishes *Perspectives* to bring research findings on important issues to those who make decisions affecting economic development, particularly in rural areas. *Perspectives* presents excerpts from recent research on emerging issues in state and local development and considers their implications for rural areas. Our italicized introductory remarks and summaries provide a backdrop for the research excerpts within quotation marks. We would appreciate your feedback on this pilot issue. Please fill out and return the enclosed evaluation.

Revisiting the Service Sector

What Is The Service Sector?

Service sector jobs are often characterized as low-wage, no benefit, "dead-end" jobs. These attitudes are reflected in the common description of services as "taking in each other's laundry." In fact, the "service sector" is so diverse most generalizations about services are misleading.

Much of the confusion about the term "services" results from the fact that the term is used to refer to both: 1) "services", a specific industry division within the Standard Industrial Classification (SIC) code--a division further subdivided into 15 major groups of service industries such as business services, personal services, legal services, health services, etc.; and 2) "service-producing industries", a broader grouping of six SIC industry divisions: finance, insurance and real estate; transportation, communication and public utilities; services; wholesale trade; retail trade; and government.

The term "service sector" as used in this issue refers to the broader group of service-producing industries. Thurow characterizes the diversity of this sector.

"Services are not an industry in the conventional sense of producing similar products or using similar technologies. Some services are high-tech (data processing); others are low tech (dog grooming). Some generate a lot of R&D (health care); others generate none (real estate). Some use a lot of capital equipment (electrical utilities); others use very little (law firms). Some pay high wages (investment bankers); others pay low wages (cleaning services). Some services are mostly in the government sector (police); other quite similar services are in the private sector (security guards). Some are person-to-person activities (hair cutting); others are machine-to-machine activities (natural gas utilities). Some provide a lot of part

IN THIS ISSUE

The rapid growth in service sector jobs and the relative stagnation of goods-producing jobs during the past several decades has focused public attention on job opportunities in the service sector. In this issue we draw on recent research to address five questions:

What Is The Service Sector?

Why Has Service Employment Grown?

Are Service Jobs "Good" Jobs?

Will Services Continue To Grow?

Which Services For Rural Areas?

time jobs (fast food restaurants); others provide only full-time jobs (transportation services). Some services provide tangible products (electricity) and others even provide products (water) that can be stored" (Thurow, p. 3).

Why Has Service Employment Grown?

While employment in goods-producing industries has remained relatively constant over the past 60 years, employment in service-producing industries has grown rapidly (See figure on page 2). Reasons for this, according to Bluestone and Miller and Thurow, include technological change, increasing incomes, foreign competition, population and labor force dynamics, and public policy.



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manufacturing--although fairly comparable to those in most nonmanufacturing industries. Part-time employment is more prevalent in services than in most industries...[which is] not undesirable in itself. However, those who work part-time are less likely to qualify for pensions and other benefits or to be considered for advancement....

"Services are commonly thought to be less egalitarian in their occupational structures than manufacturing, with many low-wage and a few very high-wage jobs and no 'middle'. While an extreme characterization,...there is some basis for this view. The proportion of workers in the middle of the earnings range is smaller for services than for manufacturing.... [T]he lack of a middle is more pronounced for men than for women.... What appears to be missing from the services industries are the high-wage blue-collar jobs. Formal education appears to be critical to achieving high wages in services" (Browne, pp. 23, 24).

"Much has been made of the fact that service jobs pay only two-thirds as much as manufacturing in the United States. While true, this fact is not as relevant as it seems. Low wages are not intrinsic to the service sector. Low wages are in fact not a characteristic of the service sector elsewhere [in Europe and Japan]. America could have a service sector that pays wages comparable to those in manufacturing. There is a price to be paid for a high wage service sector, however. Employment growth is much slower. It is not possible to have the best of both worlds, high service wages and high service employment growth without subsidies" (Thurow, p. 8).

Will Services Continue to Grow?

The prospects for service jobs over the next decade are mixed. The U.S. Bureau of Labor Statistics predicts that the service sector will continue to be the leading source of new jobs creating nine out of ten new jobs between 1985 and 1995 (BLS 1985). Some analysts question whether services can sustain current levels of growth. Thurow highlights areas of probable slow-down within the service sector and predicts new growth in manufacturing employment.

"The demand for health care workers is likely to slow down since we cannot continue to let health care expenditures grow as a fraction of GNP as they have in the past.... The growth in restaurants is also apt to come to an end. When most meals are eaten away from home, as they are now, it becomes impossible to sustain the current rate of growth. So too, there is a natural limit to longer shopping hours.... Slower growth in restaurants

and shopping centers means slower growth in real estate and building maintenance.... The growth in financial services was essentially a one-shot adjustment to the creation of a world economy and a more volatile set of financial variables.... The rapid growth in law firms seems already to have come to an end and the growth of computer software firms is problematical.... The growth in temporary workers to a great extent depends upon the course of social legislation.... Political movements are now afoot to extend fringe benefits to temporary or part-time workers. If these movements succeed, much of the advantage of subcontracted labor...will disappear.

"In contrast, manufacturing is apt to be growing very rapidly in the next decade. This conclusion directly follows from the simple observation that any country must eventually balance its balance of payments.... The bottom line is the need to add four million new manufacturing jobs in the next few years...over and above those added by general economic growth" (Thurow pp. 9, 10).

Which Services For Rural Areas?

The majority of service industries are oriented to urban locations. Important exceptions, according to Bluestone and Miller, include producer services related to resource-based industries and services related to growing tourism and retirement demand (see box next page).

"Most service industries need a city's large population base to provide the market for their services as well as to supply the specialized labor to produce the services. Sophisticated producer services, such as data processing and other business services, tend to locate in only a few major metropolitan areas because of cost and marketing advantages offered by large cities....

"Rural areas with natural recreational and environmental amenities can specialize in service industries catering to tourists and retirees.... Rural areas specializing in extractive industries (agriculture, forestry and mining) can support only a thin layer of producer service firms that cater to these industries' special needs. Other areas can focus on distribution activities such as warehousing, trucking, and motel operations at interstate highway interchanges....

"Despite the revolution in communications and information technology, rural officials should not yet conclude that traditional urban services are on the verge of loosening their ties to population centers and moving to rural areas" (Bluestone and Miller, p. 14, 15, 18).

How would you characterize your involvement in economic development?

☐ Volunteer
☐ Professional

How would you characterize your geographic interests in economic development issues (check as many as apply):

☐ Rural ☐ Suburban ☐ Urban
☐ Community level ☐ Multi-county ☐ Larger than State
☐ County level ☐ State

Future issues of *Perspectives* may address such issues as:

High Technology Manufacturing in Rural Areas
Retirees -- As An Economic Base
Tourism
Research Parks -- How Effective Are They?

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Bluestone and Miller (p. 17) used location quotients to identify the rural/urban orientation of 45 service industries. Only ten showed a strong rural orientation. Urban-oriented services are, of course, also found in rural areas. The potential for rural community depends on population size and composition, distance from large cities and many other factors.

Large Urban Oriented (13 industries): securities & commodities brokers, air transportation, motion pictures, transportation services, business services, museums, holding investment companies, misc. services, legal services, water transportation, insurance carriers, real estate, and private educational services.

Urban Oriented (15 industries): nonbank credit agencies, insurance agents, wholesale trade, highway passenger transportation, communications, auto repair, banking, misc. repair services, apparel & accessories, Fed. civilian govt., personal services, misc. retail stores, furniture & furnishings, amusement services not elsewhere classified, and retail merchandise.

Rural Oriented (10 industries): foodstores, auto dealers & gas stations, electrical services, gas & sanitary services, combined real estate and insurance, State & local govt., building materials, agricultural services, rail transportation, private households, and pipeline transportation.

Ubiquitous and Other (seven industries): social services, medical/other health services, eating & drinking places, trucking and warehousing, membership organizations, Fed. military services, and hotel & lodging places.

Implications

1. Generalizations about the service sector are risky because the service sector includes many diverse activities. Different industries within the broad classification of "services" are growing at different rates and have widely different needs regarding labor, capital and infrastructure.

2. The rapid growth of service sector employment in the past 15 years is not expected to continue at the same high rate. For example, future demand for labor is expected to grow more slowly in certain producer services such as financial services, labor subcontracting, and real estate; and in certain retail trade industries such as restaurants and food stores.

3. Although the service sector on average pays lower wages and offers fewer benefits and opportunities for advancement than the goods producing sector, low service sector wages are neither universal nor inevitable. Some services jobs pay very well. A different set of social policies could raise the average service sector wage and benefit package; however, this would likely involve significant public costs, a reduction in service job growth and higher unemployment.

4. Rural areas need to be particularly careful when targeting service industries for development. Future growth in rural services will likely be more dependent on the growth in an area's basic industries—including retirees and tourists—and on substituting locally developed services for those currently purchased outside the community.

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